

OVID-ELSIE AREA SCHOOLS  
ELSIE, MICHIGAN  
AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2004

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*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

July 15, 2004

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Ovid-Elsie Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid-Elsie Area Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ovid-Elsie Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid-Elsie Area Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated July 15, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 20 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ovid-Elsie Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*  
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Ovid Elsie Area Schools, a K-12 school District located in Clinton County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Ovid Elsie Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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**District Wide Financial Statements: (Continued)**

These two statements report the Ovid Elsie Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003:

**NET ASSETS SUMMARY**

	<u>2004</u>	<u>2003</u>
<b><u>ASSETS</u></b>		
Current Assets	\$19,415,318	\$31,522,051
Non-Current Assets	<u>23,559,206</u>	<u>11,683,566</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$42,974,524</u></b>	<b><u>\$43,205,617</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$2,257,780	\$2,071,293
Long-Term Liabilities	<u>32,868,044</u>	<u>33,229,567</u>
Total Liabilities	\$35,125,824	\$35,300,860
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	1,898,305	1,797,102
Restricted - Debt Service	116,810	440,367
Restricted - Capital Projects	661,470	400,000
Unrestricted	<u>5,172,115</u>	<u>5,267,288</u>
Total Net Assets	<u>\$7,848,700</u>	<u>\$7,904,757</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$42,974,524</u></b>	<b><u>\$43,205,617</u></b>

OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$572,257	\$575,260
Property Taxes Levied for Debt Service	1,506,374	1,444,972
State of Michigan Unrestricted Foundation Aid	10,758,753	10,728,325
Other General Revenues	<u>227,601</u>	<u>360,726</u>
Total General Revenues	\$13,064,985	\$13,109,283
<u>Operating Grants:</u>		
Federal	1,040,457	1,100,435
State of Michigan	945,095	944,704
Other Operating Grants	<u>412,542</u>	<u>349,578</u>
Total Operating Grants	\$2,398,094	\$2,394,717
<u>Charges for Services:</u>		
Food Service	270,256	265,695
Athletics	54,073	43,209
Other Charges for Services	<u>73,577</u>	<u>76,989</u>
Total Charges for Services	<u>\$397,906</u>	<u>\$385,893</u>
Total Revenues	\$15,860,985	\$15,889,893
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	7,981,446	7,752,953
Support Services	5,156,552	5,495,281
	136,870	158,883
Food Service	571,415	533,802
Athletics	241,590	225,563
Bond Issuance & Discount Fees	0	155,613
Interest on Long-Term Debt	1,529,852	1,195,670
Depreciation	<u>299,317</u>	<u>298,567</u>
Total Expenses	<u>\$15,917,042</u>	<u>\$15,816,332</u>
<b><u>INCREASE IN NET ASSETS</u></b>	(\$56,057)	\$73,561
<b><u>BEGINNING NET ASSETS</u></b>	<u>7,904,757</u>	<u>7,831,196</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$7,848,700</u></u>	<u><u>\$7,904,757</u></u>

OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets decreased by \$56,057 to a total of \$7,848,700. This represents a 1% decrease over the prior year. The largest portion of the net assets are the districts investment in fixed assets and construction in progress for the 2002 Capital projects fund. These assets increased by a net \$11,875,640 during the year as the construction project is being completed. The districts Unrestricted Net Assets decreased by \$95,173 during the year and the restricted portion of the net assets decreased by \$135,920. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenditures exceeded its revenues for the year by \$56,057. Total Revenues decreased by \$28,908 or .2% over last years amounts. The major changes were additional tax revenue for the debt service on the 2002 voter approved construction project and a reduction in investment earnings in the capital projects fund. Expenditures increased during the year by \$100,710.

Major changes were increases in interest on the new bonds of \$334,182 and instruction expenses of \$228,493 (primarily wages and fringe benefits) and a decrease in Support service expenditures of \$360,742 (primarily administrative costs and capital outlay).

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows , and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$108,492 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year were virtually unchanged from the prior year as they declined by \$17,777. Expenditures for the year increased by \$33,115, as salary and fringe benefit increases were offset by reductions in other operating costs. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
- c. The District's non-homestead levy

2. Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Ovid Elsie Area Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.



OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2003-2004 was 1,717 students. A decrease of 64 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$570,163. A reduction of \$5,098 from the prior year.

Capital Projects Fund

The districts Capital projects fund balance decreased by \$12,071,699 as the construction projects neared completion and the expenditures for the project were incurred. The only revenue for the year was \$157,733 of investment earnings.

Debt Retirement Fund

The districts debt retirement fund balance decreased by \$323,557. The fund balance is restricted to use for payments on bonded debt. The district received approval for a school bond loan in the amount of \$454,000 that is recognized as revenue in the 2002 debt fund. The funds had expenditures of \$2,286,413 in paying the required interest and principal payments of the schools bonded debt. The majority of the funds revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2003-2004, the District's debt millage levy was 7.8 mills that generated revenue of \$1,506,374. An increase of \$61,403 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances decreased by \$6,241. Food service fund revenue increased by \$38,914 from the prior year primarily from a \$24,649 increase in transfers from the general fund. Athletic fund revenue increased by \$18,793 from the prior year primarily from a \$10,864 increase in gate receipts.

OID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual &amp; Original Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$13,181,493	\$13,573,966	\$13,597,990	3.16	0.18
Expenditures	13,754,129	13,752,557	13,706,482	0.35	0.34
<b><u>TOTAL</u></b>	<b><u>(\$572,636)</u></b>	<b><u>(\$178,591)</u></b>	<b><u>(\$108,492)</u></b>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Ovid Elsie Area Schools amends its budget quarterly during the school year. For fiscal year June 30, 2004, the budget was amended in June, 2004. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	<u>Principal Balance 7-01-03</u>	<u>Increases 6-30-04</u>	<u>Principal Payments 6-30-04</u>	<u>Principal Balance 6-30-04</u>
Bonds Payable	\$33,564,505	\$0	\$760,000	\$32,804,505
MI School Bond Loan Fund	0	462,737	0	462,737
Unpaid Sick Days Payable	425,062	0	14,261	410,801
<b><u>Total Long-Term Bond Obligations</u></b>	<b><u>\$33,989,567</u></b>	<b><u>\$462,737</u></b>	<b><u>\$774,261</u></b>	<b><u>\$33,678,043</u></b>

Ovid-Elsie Area Schools has issued General Obligation Bonds dated November 20, 2002, in the amount of \$24,300,000, bearing interest at rates varying from 2.00% to 5.00% per annum. These bonds were issued for the purpose of erecting, furnishing, equipping an addition or additions to and partially remodeling, refurbishing and re-equipping the EE Knight, Leonard and North Elementary Schools and High School; constructing improvements to the playgrounds; acquiring and installing educational technology; expanding and remodeling bus maintenance garage and constructing improvements to outdoor athletic facilities. The principal balance at June 30, 2004 was \$23,875,000.

OVID ELSIE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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**CAPITAL ASSET AND DEBT ADMINISTRATION: (Continued)**

A. Debt, Principal Payments (Continued)

Michigan School Bond Loan Fund

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 2002 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 2002 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. The balance payable at June 30, 2004 was \$462,737.

B. Capital Assets

The district's net investment in capital assets decreased by \$479,490 during the fiscal year. This can be summarized as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
Capital Assets	\$17,878,308	\$107,146	\$0	\$17,985,454
Less: Accumulated Depreciation	(6,922,016)	(586,636)	0	(7,508,652)
<u>Net Investment Capital Outlay</u>	<u>\$10,956,292</u>	<u>(\$479,490)</u>	<u>\$0</u>	<u>\$10,476,802</u>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Ovid Elsie Area Schools.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$6,070,557	\$7,695,756
Investments	11,238,932	21,716,628
Due from Other Governmental Units	2,104,572	2,107,838
Inventory	1,257	1,829
Total Current Assets	<u>\$19,415,318</u>	<u>\$31,522,051</u>
<u>NON-CURRENT ASSETS</u>		
Construction in Progress	13,082,404	727,274
Capital Assets	17,985,454	17,878,308
Less: Accumulated Depreciation	(7,508,652)	(6,922,016)
Total Noncurrent Assets	<u>\$23,559,206</u>	<u>\$11,683,566</u>
<u>TOTAL ASSETS</u>	<u>\$42,974,524</u>	<u>\$43,205,617</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Salaries Payable	\$926,692	\$931,979
Accrued Expenses	521,088	379,314
Current Portion of Long-Term Obligations	810,000	760,000
Total Current Liabilities	<u>\$2,257,780</u>	<u>\$2,071,293</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>32,868,044</u>	<u>33,229,567</u>
<u>TOTAL LIABILITIES</u>	<u>\$35,125,824</u>	<u>\$35,300,860</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	1,898,305	1,797,102
Restricted for:		
Debt Service	116,810	440,367
Capital Projects	661,470	400,000
Unrestricted	<u>5,172,115</u>	<u>5,267,288</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$7,848,700</u></u>	<u><u>\$7,904,757</u></u>

See accompanying notes to the basic financial statements.

OID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENTS OF ACTIVITIES  
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003
	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense) Revenue & Change in Net Assets
Governmental Activities:				
Instruction	\$7,981,446	\$0	\$2,044,355	(\$5,937,091)
Support Services	5,156,552	73,577	99,786	(4,983,189)
Community Services	136,870	0	0	(136,870)
Food Service	571,415	270,256	253,953	(47,206)
Athletics	241,590	54,073	0	(187,517)
Bond Issuance & Discount Fees	0	0	0	0
Interest Long-Term Obligations	1,529,852	0	0	(1,529,852)
Depreciation - Unallocated	299,317	0	0	(299,317)
<b>TOTALS</b>	<b>\$15,917,042</b>	<b>\$397,906</b>	<b>\$2,398,094</b>	<b>(\$13,121,042)</b>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,078,631
State Aid				10,758,753
Investment Earnings				200,666
Miscellaneous				26,935
Total General Revenues				\$13,064,985
Change in Net Assets				(\$56,057)
Net Assets - Beginning - As Restated				7,904,757
<u>Net Assets - Ending</u>				<u>\$7,848,700</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General Fund	2002 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,921,457	\$367,410	\$781,690	\$6,070,557
Investments	0	11,238,932	0	11,238,932
Due from Other Governmental Units	2,104,572	0	0	2,104,572
Inventory	0	0	1,257	1,257
<u>TOTAL ASSETS</u>	<u>\$7,026,029</u>	<u>\$11,606,342</u>	<u>\$782,947</u>	<u>\$19,415,318</u>
<u>LIABILITIES</u>				
Salaries Payable	\$926,692	\$0	\$0	\$926,692
Accrued Expenses	272,263	0	0	272,263
Total Liabilities	\$1,198,955	\$0	\$0	\$1,198,955
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	1,257	1,257
Debt Retirement	0	0	116,810	116,810
Capital Projects	0	11,606,342	661,470	12,267,812
Unreserved:				
Undesignated, Reported In:				
General Fund	5,827,074	0	0	5,827,074
School Service Funds	0	0	3,410	3,410
Total Fund Balances	<u>\$5,827,074</u>	<u>\$11,606,342</u>	<u>\$782,947</u>	<u>\$18,216,363</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$7,026,029</u>	<u>\$11,606,342</u>	<u>\$782,947</u>	<u>\$19,415,318</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

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Total Governmental Fund Balances:		\$18,216,363
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$17,985,454 and the accumulated depreciation is \$7,508,652		10,476,802
Construction in Progress on 2002 Capital Projects Fund		13,082,404
Accrued Interest on Long-Term Debt		(248,825)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$32,804,506	
MI School Bond Loan	462,737	
Compensated Absences Payable	410,801	(33,678,044)
Total Long-Term Liabilities		
<u>TOTAL NET ASSETS -</u>		<u>\$7,848,700</u>
<u>GOVERNMENTAL ACTIVITIES</u>		

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

	General	2002 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>	<u>Fund</u>	<u>Fund</u>		
Local Sources	\$1,107,638	\$157,733	\$1,851,309	\$3,116,680
State Sources	11,649,647	0	54,201	11,703,848
Federal Sources	840,705	0	199,752	1,040,457
Total Revenues	\$13,597,990	\$157,733	\$2,105,262	\$15,860,985
<u>EXPENDITURES</u>				
Current:				
Instruction	7,891,721	0	0	7,891,721
Student Services	886,713	0	0	886,713
Instructional Support	655,349	0	0	655,349
General Administration	580,959	0	0	580,959
School Administration	815,311	0	0	815,311
Business Administration	47,967	0	0	47,967
Operation & Maintenance of Plant	1,236,131	0	0	1,236,131
Transportation	830,072	0	0	830,072
Support Services - Other	10,044	0	0	10,044
Community Services	136,870	0	0	136,870
Food Service	0	0	790,258	790,258
Debt Service	0	0	2,286,413	2,286,413
Capital Outlay				
Construction Costs	0	12,229,432	125,698	12,355,130
Total Expenditures	\$13,091,137	\$12,229,432	\$3,202,369	\$28,522,938
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$506,853	(\$12,071,699)	(\$1,097,107)	(\$12,661,953)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(574,779)	0	574,779	0
Loan Proceeds	0	0	454,000	454,000
Other Transfers	(40,566)	0	0	(40,566)
Total Other Financing Sources (Uses)	(\$615,345)	\$0	\$1,028,779	\$413,434
Net Change in Fund Balance	(\$108,492)	(\$12,071,699)	(\$68,328)	(\$12,248,519)
<u>FUND BALANCE - BEGINNING</u>	<u>5,935,566</u>	<u>23,678,041</u>	<u>851,275</u>	<u>30,464,882</u>
<u>FUND BALANCE - ENDING</u>	<u>\$5,827,074</u>	<u>\$11,606,342</u>	<u>\$782,947</u>	<u>\$18,216,363</u>

See accompanying notes to the basic financial statements.



OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

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Total net change in fund balances - governmental funds	(\$12,248,519)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(479,490)
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Construction in Progress	12,355,130
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Bonds Proceeds	(454,000)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	760,000
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Change in accrued interest on long-term liabilities	(3,439)
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Decrease in accrued compensated absences	<u>14,261</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$56,057)</u></u>
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OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2004

	<u>Trust &amp; Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$195,612</u>
<u>TOTAL ASSETS</u>	<u><u>\$195,612</u></u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$195,612</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$195,612</u></u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
NONEXPENDABLE TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2004

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<u>NON OPERATING REVENUE</u>	
Interest	\$102
<u>EXPENSES</u>	<u>311</u>
<u>NET (LOSS)</u>	(\$209)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>13,002</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$12,793</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENT OF CASH FLOWS  
NONEXPENDABLE TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2004

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<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Received	\$102
Expenses	<u>(311)</u>
<u>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(\$209)
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>13,002</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$12,793</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ovid-Elsie Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund & Public Improvement Fund

The Capital Projects Fund and the Public Improvement Fund are used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.



OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds and capital projects fund, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements. No annual budget for capital projects funds are required and therefore are not presented.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Fifth Third Bank of St. Johns and City Bank of St. Johns. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$6,265,984 and the bank balance was \$6,466,453. \$456,623 of the bank balance was covered by federal depository insurance and \$6,009,830 was uninsured and uncollateralized.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

Investments, categorized by level of risk at June 30, 2004, are as follows:

	<u>BANK BALANCE</u>
<u>Category 2</u>	
Capital Projects Fund	<u>\$ 11,238,932</u>

Fifth Third Bank - Bonds consists of the following:

	# of Shares	Interest Rate	Due Date	Fair Market Value	Cost
<u>Agency Bonds</u>					
Federal Home Loan Mtg Corp	2,915,000	3.000%	7-15-04	\$ 2,916,822	\$ 2,916,822
Fed Natl Mtge Assn	3,285,000	6.500%	8-15-04	3,305,531	3,305,531
Fed Natl Mtge Assn	2,890,000	3.500%	9-15-04	2,901,741	2,901,741
Federal Home Loan Bank	1,415,000	3.625%	10-15-04	1,423,844	1,423,844
Federal Home Loan Bank	685,000	4.125%	11-15-04	690,994	690,994
<u>TOTAL INVESTMENTS</u>				<u>\$ 11,238,932</u>	<u>\$ 11,238,932</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 2,104,572</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the School District had no estimated claims in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2004.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$14,842,457	\$0	\$0	\$14,842,457
Land Improvements	680,037	0	0	680,037
Equipment and Furniture	750,129	0	0	750,129
Vehicles	1,605,685	107,146	0	1,712,831
Totals at Historical Cost	\$17,878,308	\$107,146	\$0	\$17,985,454
Less: Accumulated Depreciation				
Buildings and Improvements	(4,929,760)	(303,800)	0	(5,233,560)
Land Improvements	(393,772)	(25,479)	0	(419,251)
Equipment and Furniture	(444,018)	(117,268)	0	(561,286)
Vehicles	(1,154,466)	(140,089)	0	(1,294,555)
Total Accumulated Depreciation	(\$6,922,016)	(\$586,636)	\$0	(\$7,508,652)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$10,956,292</u>	<u>(\$479,490)</u>	<u>\$0</u>	<u>\$10,476,802</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 89,725
Support Services	174,847
Food Service	1,492
Athletics	21,255
Unallocated	299,317
	<u>586,636</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 586,636</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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9) CAPITAL ASSETS (Continued)

Investment in capital assets – net of related debt consists of the following:

Construction in Progress	\$ 13,082,404
Capital Assets	17,985,454
Less: Accumulated Depreciation	(7,508,652)
Less: Long-Term Liabilities	(33,678,044)
Sick & Vacation Pay	410,801
2002 Capital Projects Fund Equity	<u>11,606,342</u>
 <u>TOTAL</u>	 <u>\$ 1,898,305</u>

10) GENERAL LONG-TERM DEBT

A) Prior Period Defeasance

On December 1, 1999, the District defeased certain obligation bonds by placing the proceeds of the new general obligation bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's government-wide financial statements. On June 30, 2004, \$6,995,000 of bonds outstanding are considered defeased.

B) General Obligation Bonds Payable

Ovid-Elsie Area Schools issued general obligation limited tax bonds for the purpose of remodeling, furnishing and equipping additions to existing buildings and various other projects. The bonds are dated August 1, 1995 and December 1, 1998 and require annual payments of principal and interest. The interest rates range from 3.4% to 5.6% per annum. The principal balance at June 30, 2004 was \$305,000 and \$8,490,000, respectively.

Ovid-Elsie Area Schools has issued General Obligation Bonds dated November 20, 2002, in the amount of \$24,300,000, bearing interest at rates varying from 2.00% to 5.00% per annum. These bonds were issued for the purpose of erecting, furnishing, equipping an addition or additions to and partially remodeling, refurbishing and re-equipping the EE Knight, Leonard and North Elementary Schools and High School; constructing improvements to the playgrounds; acquiring and installing educational technology; expanding and remodeling bus maintenance garage and constructing improvements to outdoor athletic facilities. The principal balance at June 30, 2004 was \$23,875,000.

C) Durant Resolution Package Bonds

Ovid-Elsie Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$210,537 at the interest rate of 4.761353%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$134,505. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

10) GENERAL LONG-TERM DEBT (Continued)

D) Michigan School Bond Loan Fund

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 2002 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 2002 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. The balance payable at June 30, 2004 was \$462,737.

E) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	Bonds Payable	Michigan School Bond Loan Fund	Interest	Total
June 30, 2005	\$810,000	\$0	\$1,492,946	\$2,302,946
June 30, 2006	865,191	0	1,463,018	2,328,209
June 30, 2007	943,697	0	1,452,306	2,396,003
June 30, 2008	951,184	0	1,404,902	2,356,086
June 30, 2009	1,001,717	0	1,370,998	2,372,715
June 30, 2010-2014	5,772,716	0	6,234,156	12,006,872
June 30, 2015-2019	7,085,000	0	4,876,368	11,961,368
June 30, 2020-2024	6,500,000	0	3,114,075	9,614,075
June 30, 2025-2029	5,500,000	0	1,668,750	7,168,750
June 30, 2030-2032	3,375,000	0	337,500	3,712,500
Thereafter	0	462,737	0	462,737
<u>TOTAL</u>	<u>\$32,804,505</u>	<u>\$462,737</u>	<u>\$23,415,019</u>	<u>\$56,682,261</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$1,525,464.

F) Changes in General Long-Term Debt

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
General Obligation & Durant					
Bonds Payable	\$33,564,505	\$0	\$760,000	\$32,804,505	\$810,000
MI School Bond Loan Fund	0	462,737	0	462,737	0
Unpaid Sick Days Payable	425,062	0	14,261	410,801	0
<u>Total Governmental Activities</u>	<u>\$33,989,567</u>	<u>\$462,737</u>	<u>\$774,261</u>	<u>\$33,678,043</u>	<u>\$810,000</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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11) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	GENERAL
	FUND
Food Service Fund	\$32,991
Athletic Fund	157,788
Public Improvement Fund	384,000
<u>TOTAL</u>	<u>\$574,779</u>

These transfers were made to subsidize the cost of services for food service and athletics and public improvement.

12) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$1,039,926, \$1,003,491 and \$925,983, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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13) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property, and casualty, theft, damage to various tort, liability, and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incur in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

14) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which is the 21<sup>st</sup> Century Learning grant. This program is subject to program compliance audits. The audit of this program for and including the year ended June 30, 2004, has been conducted and has been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

The District has a remaining construction commitment on its 2002 Capital Projects Fund in the amount of \$12,007,341 at June 30, 2004.



REQUIRED  
SUPPLEMENTARY  
INFORMATION

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$1,070,898	\$1,111,672	\$1,107,638	(\$4,034)
State Sources	11,323,790	11,621,589	11,649,647	28,058
Federal Sources	786,805	840,705	840,705	0
Total Revenues	\$13,181,493	\$13,573,966	\$13,597,990	\$24,024
<u>EXPENDITURES</u>				
Current:				
Instruction	7,827,114	7,911,340	7,891,721	19,619
Student Services	850,546	886,713	886,713	0
Instructional Support	713,558	655,349	655,349	0
General & School Administration	1,826,996	1,396,271	1,396,270	1
Business Administration	60,000	47,967	47,967	0
Operation & Maintenance of Plant	1,218,700	1,236,131	1,236,131	0
Transportation	780,300	830,073	830,072	1
Support Services - Other	12,000	10,044	10,044	0
Community Services	210,315	136,870	136,870	0
Total Expenditures	\$13,499,529	\$13,110,758	\$13,091,137	\$19,621
Excess of Revenues Over Expenditures	(\$318,036)	\$463,208	\$506,853	\$43,645
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	(254,600)	(641,799)	(615,345)	26,454
<u>FUND BALANCE - BEGINNING</u>				
			5,935,566	
<u>FUND BALANCE - ENDING</u>				
			\$5,827,074	

OTHER SUPPLEMENTAL  
INFORMATION

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Public Improvement Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$3,410	\$116,810	\$661,470	\$781,690
Inventory	1,257	0	0	1,257
<u>TOTAL ASSETS</u>	<u>\$4,667</u>	<u>\$116,810</u>	<u>\$661,470</u>	<u>\$782,947</u>
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	\$1,257	\$0	\$0	\$1,257
Debt Retirement	0	116,810	0	116,810
Capital Projects	0	0	661,470	661,470
Unreserved:				
Undesignated, Reported In:				
School Service Fund	3,410	0	0	3,410
<u>TOTAL FUND BALANCES</u>	<u>\$4,667</u>	<u>\$116,810</u>	<u>\$661,470</u>	<u>\$782,947</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Public Improvement Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$339,285	\$1,508,856	\$3,168	\$1,851,309
State Sources	54,201	0	0	54,201
Federal Sources	199,752	0	0	199,752
Total Revenues	\$593,238	\$1,508,856	\$3,168	\$2,105,262
<u>OTHER FINANCING SOURCES (USES)</u>	190,779	454,000	384,000	1,028,779
Total Revenues & Other Financing Sources	\$784,017	\$1,962,856	\$387,168	\$3,134,041
<u>EXPENDITURES</u>				
Food Service	790,258	0	0	790,258
Debt Service	0	2,286,413	0	2,286,413
Capital Outlay	0	0	125,698	125,698
Total Expenditures	\$790,258	\$2,286,413	\$125,698	\$3,202,369
Net Change in Fund Balance	(\$6,241)	(\$323,557)	\$261,470	(\$68,328)
<u>NET ASSETS - BEGINNING</u>	10,908	440,367	400,000	851,275
<u>NET ASSETS - ENDING</u>	\$4,667	\$116,810	\$661,470	\$782,947

OVID-ELSIE SCHOOLS - ELSIE, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$3,304	\$106	\$3,410
Inventory	<u>1,257</u>	<u>0</u>	<u>1,257</u>
<u>TOTAL ASSETS</u>	<u>\$4,561</u>	<u>\$106</u>	<u>\$4,667</u>
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	\$1,257	\$0	\$1,257
Fund Balance - Unreserved and Undesignated	<u>3,304</u>	<u>106</u>	<u>3,410</u>
<u>TOTAL FUND EQUITY</u>	<u>\$4,561</u>	<u>\$106</u>	<u>\$4,667</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$270,256	\$0	\$270,256
Athletic Activities	0	54,073	54,073
Earnings on Investments	10	13	23
Other Revenue	6,544	8,389	14,933
Total Local Sources	<u>\$276,810</u>	<u>\$62,475</u>	<u>\$339,285</u>
<u>State Sources</u>			
State Reimbursements	54,201	0	54,201
<u>Federal Sources</u>			
Federal Reimbursements	170,611	0	170,611
Commodities	29,141	0	29,141
Total Federal Sources	<u>\$199,752</u>	<u>\$0</u>	<u>\$199,752</u>
Total Revenues	<u>\$530,763</u>	<u>\$62,475</u>	<u>\$593,238</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from Other Funds	32,991	157,788	190,779
Total Revenues and Other Financing Sources	<u>\$563,754</u>	<u>\$220,263</u>	<u>\$784,017</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	175,703	132,721	308,424
Insurances	72,723	0	72,723
Fica, Retirement, Etc.	35,972	25,067	61,039
Other Benefits	1,820	0	1,820
Purchased Services	14,257	27,622	41,879
Supplies and Materials	268,980	19,459	288,439
Other	468	15,466	15,934
Total Expenditures	<u>\$569,923</u>	<u>\$220,335</u>	<u>\$790,258</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$6,169)</u>	<u>(\$72)</u>	<u>(\$6,241)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$10,730</u>	<u>\$178</u>	<u>\$10,908</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$4,561</u>	<u>\$106</u>	<u>\$4,667</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
DEBT RETIREMENT FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2004

	<u>1995</u> <u>DEBT</u>	<u>1998</u> <u>DEBT</u>	<u>2002</u> <u>DEBT</u>	<u>TOTALS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$4,396</u>	<u>\$0</u>	<u>\$112,414</u>	<u>\$116,810</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved for Debt Retirement	<u>\$4,396</u>	<u>\$0</u>	<u>\$112,414</u>	<u>\$116,810</u>



OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
DEBT RETIREMENT FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>1995 DEBT FUND</u>	<u>1998 DEBT FUND</u>	<u>2002 DEBT</u>	<u>TOTALS</u>
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Tax Levy	\$206,823	\$275,213	\$1,024,338	\$1,506,374
Earnings on Investments and Deposits	928	887	667	2,482
Total Local Sources	<u>\$207,751</u>	<u>\$276,100</u>	<u>\$1,025,005</u>	<u>\$1,508,856</u>
<u>OTHER FINANCING SOURCES</u>				
Loan Proceeds	0	0	454,000	454,000
Total Revenues and Other Financing Sources	<u>\$207,751</u>	<u>\$276,100</u>	<u>\$1,479,005</u>	<u>\$1,962,856</u>
<u>EXPENDITURES</u>				
Redemption of Bond Principal	285,000	50,000	425,000	760,000
Interest on Bonded Debt	44,250	382,972	1,098,241	1,525,463
Dues and Fees	400	300	250	950
Total Expenditures	<u>\$329,650</u>	<u>\$433,272</u>	<u>\$1,523,491</u>	<u>\$2,286,413</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$121,899)</u>	<u>(\$157,172)</u>	<u>(\$44,486)</u>	<u>(\$323,557)</u>
<u>FUND BALANCE - BEGINNING</u>	<u>\$126,295</u>	<u>\$157,172</u>	<u>\$156,900</u>	<u>\$440,367</u>
<u>FUND BALANCE - ENDING</u>	<u>\$4,396</u>	<u>\$0</u>	<u>\$112,414</u>	<u>\$116,810</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2004

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REVENUES FROM
Local Sources

Property Tax Levy	\$572,257
Earnings on Investments and Deposits	37,260
CC RESA S.E.	149,712
CC RESA Vocational Education	212,156
Sale of School Property	911
Rentals	14,480
Community Education	9,335
Medicaid	50,674
Other Local Revenues	60,853
Total Revenues from Local Sources	<u>\$1,107,638</u>

State Sources

State Aid - Membership	10,758,753
Special Education	601,920
Driver Education	20,308
Section 31A - At Risk	211,106
Pathways Grant	28,058
Durant	21,054
Vocational Education	8,448
Total Revenues from State Sources	<u>\$11,649,647</u>

Federal Sources

Title I	293,156
Improving Teacher Quality	92,345
21st Century Learning Centers	446,654
Technology Literacy Challenge	7,128
Title V	1,422
Total Revenues from Federal Sources	<u>\$840,705</u>

TOTAL REVENUES
\$13,597,990

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,925,800
Salaries - Non-Professional	60,461
Insurances	505,879
Fica, Retirement, Etc.	410,776
Purchased Services	48,104
Supplies & Materials	46,598
Capital Outlay	2,818
Other	21,014
Total Elementary	<u>\$3,021,450</u>

Middle School

Salaries - Professional	630,849
Insurances	183,748
Fica, Retirement, Etc.	129,533
Purchased Services	20,344
Supplies & Materials	11,012
Capital Outlay	1,648
Other	1,852
Total Middle School	<u>\$978,986</u>

High School

Salaries - Professional	1,267,616
Insurances	310,715
Fica, Retirement, Etc.	262,365
Other Benefits	16,806
Purchased Services	74,309
Supplies & Materials	52,761
Capital Outlay	63,463
Other	2,245
Total High School	<u>\$2,050,280</u>

Total Basic Programs

\$6,050,716

ADDED NEEDSSpecial Education

Salaries - Professional	569,822
Salaries - Non-Professional	78,655
Insurances	171,016
Fica, Retirement, Etc.	132,869
Purchased Services	5,367
Supplies & Materials	6,907
Capital Outlay	4,288
Total Special Education	<u>\$968,924</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)ADDED NEEDS (Continued)Compensatory Education

Salaries - Professional	\$239,525
Salaries - Non-Professional	96,368
Insurances	124,705
Fica, Retirement, Etc.	69,179
Supplies & Materials	4,691
Total Compensatory Education	<u>\$534,468</u>

Vocational Education - High School

Salaries - Professional	89,448
Salaries - Non-Professional	9,632
Insurances	20,053
Fica, Retirement, Etc.	20,518
Purchased Services	6,223
Supplies & Materials	1,350
Capital Outlay	78,127
Total Vocational Education - High School	<u>\$225,351</u>

Total Added Needs

\$1,728,743

ALTERNATIVE EDUCATION

Salaries - Professional	54,883
Salaries - Non-Professional	1,816
Insurances	26,619
Fica, Retirement, Etc.	11,702
Purchased Services	3,835
Supplies & Materials	6,915
Other	6,492
Total Alternative Education	<u>\$112,262</u>

Total Instruction

\$7,891,721

SUPPORT SERVICESSTUDENT SERVICESCapital Outlay

Capital Outlay	52,383
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Community Learning Center Grant

Salaries - Professional	362,967
Insurances	26,364
Fica, Retirement, Etc.	36,857
Purchased Services	41,065
Supplies & Materials	16,244
Total Community Learning Center Grant	<u>\$483,497</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

STUDENT SERVICES (Continued)

Guidance Services

Salaries - Professional	\$196,930
Salaries - Non-Professional	21,828
Insurances	50,532
Fica, Retirement, Etc.	45,286
Purchased Services	600
Supplies & Materials	26,656
Other	9,001
Total Guidance Services	<u>\$350,833</u>

Total Student Services	\$886,713
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INSTRUCTIONAL STAFF

Improvement of Instruction

Purchased Services	24,744
Supplies & Materials	1,034
Total Improvement of Instruction	<u>\$25,778</u>

Library

Salaries - Professional	58,168
Salaries - Non-Professional	69,693
Insurances	68,775
Fica, Retirement, Etc.	26,458
Purchased Services	7,039
Supplies & Materials	42,231
Other	39,610
Total Library	<u>\$311,974</u>

Audiovisual

Salaries - Professional	119,485
Insurances	23,361
Fica, Retirement, Etc.	24,130
Purchased Services	39,888
Supplies & Materials	40,971
Total Audiovisual	<u>\$247,835</u>

Educational Television & Radio

Salaries - Professional	11,080
Salaries - Non-Professional	24,243
Insurances	10,804
Fica, Retirement, Etc.	7,291
Purchased Services	5,260
Supplies & Materials	11,084
Total Educational Television & Radio	<u>\$69,762</u>

Total Instructional Staff	\$655,349
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OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	\$700
Purchased Services	39,397
Supplies & Materials	15,566
Other	12,168
Total Board of Education	<u>\$67,831</u>

Executive Administration

Salaries - Professional	142,675
Salaries - Non-Professional	161,182
Insurances	91,868
Fica, Retirement, Etc.	58,144
Other Benefits	17,402
Purchased Services	36,171
Supplies & Materials	3,655
Other	2,031
Total Executive Administration	<u>\$513,128</u>

Total General Administration	\$580,959
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SCHOOL ADMINISTRATION

Salaries - Professional	317,670
Salaries - Non-Professional	148,061
Insurances	149,425
Fica, Retirement, Etc.	128,369
Purchased Services	24,582
Supplies & Materials	42,416
Other	4,788
Total School Administration	<u>\$815,311</u>

BUSINESS OFFICE

Purchased Services	47,967
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OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	57,841
Salaries - Non-Professional	397,608
Insurances	196,180
Fica, Retirement, Etc.	94,012
Other Benefits	975
Purchased Services	438,842
Supplies & Materials	50,020
Other	653
Total Operation and Maintenance of Plant	<u>\$1,236,131</u>

## OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN

## GENERAL FUND

## SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)TRANSPORTATION

Salaries - Professional	\$47
Salaries - Non-Professional	459,423
Insurances	35,119
Fica, Retirement, Etc.	94,597
Purchased Services	40,432
Supplies & Materials	89,797
Capital Outlay	107,146
Other	3,511
Total Transportation	<u>\$830,072</u>

Other Support Services

Salaries - Non-Professional	9,643
Fica, Retirement, Etc.	401
Total Other Support Services	<u>\$10,044</u>

<u>Total Support Services</u>	\$5,062,546
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COMMUNITY SERVICES

Salaries - Professional	69,313
Salaries - Non-Professional	23,305
Insurances	15,400
Fica, Retirement, Etc.	22,633
Purchased Services	1,274
Supplies & Materials	4,945
Total Community Services	<u>\$136,870</u>

<u>Total Expenditures</u>	\$13,091,137
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OTHER FINANCING USES

Payments to Other Districts	31,000
Transfer to Food Service	32,991
Transfer to Public Improvement Fund	384,000
Coaching Wages	132,721
Retirement Contributions - Athletics	15,197
Employer Social Security - Athletics	9,870
Other Transactions	9,566
Total Other Financing Uses	<u>\$615,345</u>

TOTAL EXPENDITURES AND OTHER  
FINANCING USES

<u>\$13,706,482</u>
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OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Alternative Education	\$407	\$667	\$906	\$168
Alumni Account	1,746	1,582	1,400	1,928
Art Club	523	0	0	523
Athletic Account	170	14,081	13,222	1,029
Band Account	4,697	20,626	20,775	4,548
Baseball Account	794	3,291	2,438	1,647
Basketball/Boys	816	7,523	5,287	3,052
Basketball/Girls	2,739	5,048	6,828	959
Bookstore	375	201	215	361
Cash for Checks	0	1,430	1,430	0
Cheerleaders	2	6,567	6,344	225
Class of 2003	333	132	465	0
Class of 2004	441	2,107	2,341	207
Class of 2005	1,222	6,490	4,303	3,409
Class of 2006	639	1,076	1,300	415
Class of 2007	0	1,510	1,114	396
Community Education	1,160	263	609	814
Computer - Aided Draft	357	64	0	421
Cross Country	754	3,223	2,577	1,400
E.E. Knight Elementary	9,587	16,095	13,653	12,029
F.F.A.	4,978	13,441	16,124	2,295
Football	10,768	10,178	9,631	11,315
Golf Team	1,110	2,104	1,554	1,660
Guidance Account	5,798	421	644	5,575
H.S. Account	3,687	18,256	19,127	2,816
Interest Account	3,895	1,499	528	4,866
K-8 Libraries	4,992	14,484	17,175	2,301
Leonard Elementary	5,298	53,486	50,103	8,681
Library	4,193	7,593	5,816	5,970
Marauderettes	164	2,900	2,626	438
National Honors Society	570	683	596	657
North Elementary	3,132	41,017	43,276	873
O-E Mat Club	1,370	417	1,030	757
O-E Mens' B'Ball	6	4,095	4,100	1
O-E Middle School	27,044	35,081	34,736	27,389
P.A.L.S.	280	878	920	238
Preschool	0	575	0	575
Purple Melon	545	17,793	17,292	1,046
Sub-Total	\$104,592	\$316,877	\$310,485	\$110,984

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS JULY 1, 2003	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS JUNE 30, 2004
Renaissance Account	\$4,242	\$0	\$2,054	\$2,188
School Improvement	29,520	9,721	9,750	29,491
Shop Account	1,390	11,404	10,204	2,590
Soccer	0	1,083	1,000	83
Softball	0	2,455	1,525	930
Stage Lighting	1,190	125	851	464
Student Council	8,945	22,571	26,851	4,665
Swim and Guard	1,177	1,705	1,047	1,835
Teacher's Pop	4,205	578	2,253	2,530
Tennis (Boys)	546	9	0	555
Track Club	378	1,886	2,224	40
Tri-M Music Soc.	1,193	0	0	1,193
Varsity Club	288	794	1,057	25
Volleyball	54	3,763	3,723	94
W.O.E.S. Radio	10,163	13,094	17,164	6,093
Yearbook	5,163	29,386	33,574	975
<u>TOTALS</u>	<u>\$173,046</u>	<u>\$415,451</u>	<u>\$423,762</u>	<u>\$164,735</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - SCHOLARSHIP FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

<u>CLARK ESTATE FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$8,689
<u>RECEIPTS</u>	
Interest	21
Donations	13
Total Receipts	<u>\$34</u>
<u>DISBURSEMENTS</u>	
Transfer to Byron Green Memorial Fund	<u>252</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$8,471</u>
<u>BYRON GREEN MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$4,301
<u>RECEIPTS</u>	
Interest	11
Donations	1,588
Transfer from Clark Estate Fund	252
Total Receipts	<u>\$1,851</u>
<u>DISBURSEMENTS</u>	
Scholarships	<u>1,200</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$4,952</u>
<u>JACK BOWER MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$4,682
<u>DISBURSEMENTS</u>	
Scholarships	<u>21</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$4,661</u>
<u>JERRY HERBLET MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$223
<u>DISBURSEMENTS</u>	
Scholarship Awards	<u>223</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$0</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - SCHOLARSHIP FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

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CAMPBELL MEMORIAL LIBRARY FUND - NON-EXPENDABLE TRUST

<u>BALANCE - JULY 1, 2003</u>	\$13,002
<u>RECEIPTS</u>	
Interest	102
<u>DISBURSEMENTS</u>	<u>311</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$12,793</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2004</u>	<u>\$30,877</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
GENERAL OBLIGATION SERIAL BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2004

1995 SCHOOL BUILDING & SITE BONDS

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2004-2005	<u>\$11,438</u>	<u>\$11,438</u>		<u>\$305,000</u>	<u>\$327,876</u>

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$210,537

<u>PAYMENT DATE - MAY 15TH</u>	<u>INTEREST REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005	\$0	4.761353%	\$0	\$0
2006	4,594	4.761353%	10,191	14,785
2007	21,069	4.761353%	48,697	69,766
2008	3,600	4.761353%	11,184	14,784
2009	3,068	4.761353%	11,717	14,785
2010	2,510	4.761353%	12,274	14,784
2011	1,926	4.761353%	12,859	14,785
2012	1,313	4.761353%	13,471	14,784
2013	672	4.761353%	14,112	14,784
<u>TOTAL</u>	<u>\$38,752</u>		<u>\$134,505</u>	<u>\$173,257</u>

OID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2004

Refunding Bonds issued December 1, 1998, and outstanding as of June 30, 2004, consisted of:

GENERAL OBLIGATION - UNLIMITED TAX BONDS

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2004-2005	\$190,524	\$190,524	3.95%	\$50,000	\$431,048
2005-2006	189,536	189,536	4.05%	375,000	754,072
2006-2007	181,942	181,943	4.05%	390,000	753,885
2007-2008	174,045	174,045	4.10%	410,000	758,090
2008-2009	165,640	165,640	4.15%	425,000	756,280
2009-2010	156,821	156,821	4.20%	445,000	758,642
2010-2011	147,476	147,476	4.30%	460,000	754,952
2011-2012	137,586	137,586	4.35%	485,000	760,172
2012-2013	127,038	127,037	4.40%	505,000	759,075
2013-2014	115,928	115,928	4.50%	530,000	761,856
2014-2015	104,003	104,003	4.60%	550,000	758,006
2015-2016	91,353	91,352	4.65%	580,000	762,705
2016-2017	77,867	77,868	4.70%	605,000	760,735
2017-2018	63,650	63,650	4.75%	635,000	762,300
2018-2019	48,569	48,569	4.75%	665,000	762,138
2019-2020	32,775	32,775	4.75%	690,000	755,550
2020-2021	16,388	16,387	4.75%	690,000	722,775
<u>TOTAL</u>	<u>\$2,021,141</u>	<u>\$2,021,140</u>		<u>\$8,490,000</u>	<u>\$12,532,281</u>

OID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2004

Bonds issued November 20, 2002, and outstanding as of June 30, 2004, consisted of:

2002 SCHOOL BUILDING & SITE BONDS

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2004-2005	\$544,511	\$544,511	2.125%	\$455,000	\$1,544,022
2005-2006	539,676	539,676	2.500%	480,000	1,559,352
2006-2007	533,676	533,676	2.800%	505,000	1,572,352
2007-2008	526,606	526,606	3.125%	530,000	1,583,212
2008-2009	518,325	518,325	3.350%	565,000	1,601,650
2009-2010	508,861	508,861	3.550%	595,000	1,612,722
2010-2011	498,300	498,300	3.650%	630,000	1,626,600
2011-2012	486,803	486,803	3.750%	660,000	1,633,606
2012-2013	474,428	474,428	4.000%	690,000	1,638,856
2013-2014	460,627	460,627	4.125%	720,000	1,641,254
2014-2015	445,777	445,777	4.250%	750,000	1,641,554
2015-2016	429,840	429,840	4.350%	780,000	1,639,680
2016-2017	412,875	412,875	5.000%	810,000	1,635,750
2017-2018	392,625	392,625	5.000%	840,000	1,625,250
2018-2019	371,625	371,625	5.000%	870,000	1,613,250
2019-2020	349,875	349,875	5.000%	900,000	1,599,750
2020-2021	327,375	327,375	5.000%	920,000	1,574,750
2021-2022	304,375	304,375	5.000%	1,100,000	1,708,750
2022-2023	276,875	276,875	5.000%	1,100,000	1,653,750
2023-2024	249,375	249,375	5.000%	1,100,000	1,598,750
2024-2025	221,875	221,875	5.000%	1,100,000	1,543,750
2025-2026	194,375	194,375	5.000%	1,100,000	1,488,750
2026-2027	166,875	166,875	5.000%	1,100,000	1,433,750
2027-2028	139,375	139,375	5.000%	1,100,000	1,378,750
2028-2029	111,875	111,875	5.000%	1,100,000	1,323,750
2029-2030	84,375	84,375	5.000%	1,125,000	1,293,750
2030-2031	56,250	56,250	5.000%	1,125,000	1,237,500
2031-2032	28,125	28,125	5.000%	1,125,000	1,181,250
<u>TOTAL</u>	<u>\$9,655,555</u>	<u>\$9,655,555</u>		<u>\$23,875,000</u>	<u>\$43,186,110</u>

OVID-ELSIE AREA SCHOOLS

ELSIE, MICHIGAN

FEDERAL AWARDS  
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004



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*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

July 15, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Ovid Elsie Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid Elsie Area Schools, as of and for the year ended June 30, 2004, which collectively comprise the Ovid Elsie Area Schools' basic financial statements and have issued our report thereon dated July 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ovid Elsie Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Ovid Elsie Area Schools, in a separate letter dated July 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ovid Elsie Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Ovid Elsie Area Schools, in a separate letter dated July 15, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf PC*

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

July 15, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Education of  
Ovid Elsie Area Schools

Compliance

We have audited the compliance of Ovid Elsie Area Schools with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Ovid Elsie Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Ovid Elsie Area Schools' management. Our responsibility is to express an opinion on Ovid Elsie Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ovid Elsie Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ovid Elsie Area Schools' compliance with those requirements.

In our opinion, Ovid Elsie Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

Internal Control Over Compliance

The management of Ovid Elsie Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Ovid Elsie Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Ovid Elsie Area Schools

Page 2

July 15, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*  
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct Award Passed Through U.S. Department of Education:			
21st Century Learning Centers	84.287A		
After School Learning Centers (03-04)		S287A000683-01	\$446,654
After School Learning Centers (02-03)		S287A000683-01	785,755
Total 21st Century Learning Centers			<u>\$1,232,409</u>
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA Title I - Regular (03-04)		41530-0304	293,156
Title V - Innovative Education Programs	84.298		
Title V LEA Allocation (03-04)		40250-0304	1,422
Technology Literacy Challenge (03-04)	84.318	44290-0304	7,128
Title II A - Teacher Quality	84.367		
Improving Teacher Quality (03-04)		40520-0304	92,345
Total Passed Through Michigan Department of Education			<u>\$394,051</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$1,626,460</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	25,121
Bonus Commodities		N/A	4,436
Total Food Distribution			<u>\$29,557</u>
School Breakfast Program	10.553	N/A	35,239
National School Lunch Program	10.555	N/A	<u>135,373</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			<u>\$200,169</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$1,826,629</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$446,654	\$0	\$446,654	\$0
36,655	474,752	0	0	36,655	0
<u>\$36,655</u>	<u>\$474,752</u>	<u>\$446,654</u>	<u>\$0</u>	<u>\$483,309</u>	<u>\$0</u>
0	0	293,156	0	293,156	0
0	0	1,422	0	1,422	0
0	0	7,128	0	7,128	0
0	0	92,345	0	92,345	0
<u>\$0</u>	<u>\$0</u>	<u>\$394,051</u>	<u>\$0</u>	<u>\$394,051</u>	<u>\$0</u>
\$36,655	\$474,752	\$840,705	\$0	\$877,360	\$0
0	0	24,704	0	24,704	0
0	0	4,436	0	4,436	0
<u>\$0</u>	<u>\$0</u>	<u>\$29,140</u>	<u>\$0</u>	<u>\$29,140</u>	<u>\$0</u>
0	0	35,239	0	35,239	0
0	0	135,373	0	135,373	0
<u>\$0</u>	<u>\$0</u>	<u>\$199,752</u>	<u>\$0</u>	<u>\$199,752</u>	<u>\$0</u>
<u>\$36,655</u>	<u>\$474,752</u>	<u>\$1,040,457</u>	<u>\$0</u>	<u>\$1,077,112</u>	<u>\$0</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

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FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS

\$1,040,457

FEDERAL REVENUE RECOGNIZED PER THE GENERAL  
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund \$840,705

School Service Fund 199,752

TOTAL \$1,040,457

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 6 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN  
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"  
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

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Current Payments Per the Grant Section Auditor's Report (Form R 7120)	\$590,195
<u>Less:</u> State Funded Grants:	
Driver Education	(9,040)
School Breakfast Program	(15,722)
<u>Add:</u> Grants Passed Through U.S. Department of Education:	
After School Learning Centers (CFDA #87.287A)	483,309
Entitlement and Bonus Commodities (CFDA #10.550)	29,140
<u>Less:</u> Adjustment due to R-7120 showing wrong amount for School Lunch & Breakfast Programs.	<u>(770)</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	<u>\$1,077,112</u>



OVID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

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**Financial Statements**

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

CFDA Number(s)  
84.287

Name of Federal Program or Cluster  
21st Century Learning Centers

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☒ Yes ☐ No

OVID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

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**DEPARTMENT OF EDUCATION**

2004-1) 21st Century Learning Centers Grant CFDA #84.287; grant #S287A000683-01; grant period ended August 31, 2004

Specific Requirement: Cash management.

Condition: The District incorrectly forecasted its 3 day cash needs at June 30, 2004, and consequently received cash advances in excess of immediate cash needs.

Criteria: The grant in question allows for cash advances for up to 3 days cash needs.

Effect of Condition: The District has excess cash at June 30, 2004.

Cause of Condition: Premature request of funds which could not be spent within the subsequent 3 days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Management Response: Management will ensure that all requests will not exceed anticipated 3 day cash needs.

Questioned Cost: None.

2004-2) 21st Century Learning Centers Grant CFDA #84.287; grant #S287A000683-01; grant period ended August 31, 2004

Specific Requirement: Allowable Cost/Cost Principles.

Condition: The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.

Criteria: The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

Effect of Condition: Salaries and wages charged to the program could be disallowed.

Cause of Condition: The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.

Recommendation: The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

Management Response: The District will develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

Questioned Cost: None.

OVID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

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There were no prior year findings or questioned costs.



*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

July 15, 2004

To the Board of Education of  
Ovid-Elsie Area Schools

In planning and performing our audit of the general purpose financial statements of Ovid-Elsie Area Schools for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Ovid-Elsie Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items of immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Contracted Services  
Management should determine whether contract service individuals would satisfy the Internal Revenue requirements or whether they should be classified as employees.
2. Athletic Gate Ticket Reconciliations  
Ticket reconciliations need to be consistently prepared and be able to be reconciled to specific deposits.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Ovid-Elsie Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf PC*  
LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS